

# Prepare for Life

Winter 2023

## IN THIS ISSUE

How to get super ready for EOFY

How do interest rates affect your investments?

Think you'll never fall for a scam? – Think again!



## How to get *Super* ready for EOFY

Superannuation has been in the news recently, with a change announced in the Federal Budget impacting those whose total balance exceeds \$3 million. While this change applying from 1 July 2025 still needs to be legislated, it's worthwhile turning our focus to superannuation balances as we approach the end of this financial year.



There are lots of different ways to top up your super, but if you want to take advantage of the opportunity to maximise your contributions, it is important not to wait until the last minute.

One of the simplest ways to boost your retirement savings is to contribute a bit extra into your super account from your before-tax income. When you make a voluntary personal contribution, you may even be able to claim it as a tax deduction.

If you have any unused concessional contribution amounts from previous financial years and your super balance is less than \$500,000, you can also make a carry-forward contribution. This can be a great way to offset your income if you have higher-than-usual earnings this year.

Another easy way to boost your super is by making tax-effective super contributions through a salary sacrifice arrangement. Now is a good time to discuss this with your boss, because the Australian Taxation Office requires these arrangements to be documented prior to commencement.

## Non-concessional super strategies

If you have some spare cash and have reached your concessional contributions limit, received an inheritance, or have additional personal savings you would like to put into super, voluntary non-concessional contributions can be a good solution.

Non-concessional super contributions are payments you put into your super from your savings or from income you have already paid tax on. They are not taxed when they are received by your super fund.

Although you can't claim a tax deduction for non-concessional contributions because they aren't taxed when entering your super account, they can be a great way to get money into the lower taxed super system.

Downsizer contributions are another option if you're aged 55 and over and plan to sell your home. The rules allow you to contribute up to \$300,000 (\$600,000 for a couple) from your sale proceeds.

And don't forget you can make a contribution into your low-income spouse's super account – it could score you a tax offset of up to \$540.

Eligible low-income earners also benefit from the government's super co-contribution rules. The government will pay 50 cents for every dollar you pay into your super up to a maximum of \$500.

## Your tax bill can benefit

Making extra contributions before the end of the financial year can give your retirement savings a healthy boost, but it can also potentially reduce your tax bill.

Concessional contributions are taxed at only 15 per cent, which for most people is lower than their marginal tax rate. You benefit by paying less tax compared to receiving the money as normal income.

If you earn over \$250,000, however, you may be required to pay additional tax under the Division 293 tax rules.

Some voluntary personal contributions may also provide a handy tax deduction, while the investment returns you earn on your super are only taxed at 15 per cent.

## Watch your annual contribution limit

Before rushing off to make a contribution, it's important to check where you stand with your annual caps. These are the limits on how much you can add to your super account each year. If you exceed them, you will pay extra tax.

For concessional contributions, the current annual cap is \$27,500 and this applies to everyone.

When it comes to non-concessional contributions, for most people under age 75 the annual limit is \$110,000. Your personal cap may be different, particularly if you already have a large amount in super, so it's a good idea to talk to us before contributing.

There may even be an opportunity to bring-forward up to three years of your non-concessional caps so you can contribute up to \$330,000 before 30 June.

If you would like to discuss EOFY super strategies or your eligibility to make contributions, don't hesitate to give us a call.

# How do interest rates affect your investments?

**Interest rates are an important financial lever for world economies. They affect the cost of borrowing and the return on savings, and it makes them an integral part of the return on many investments. It can also affect the value of the currency, which has a further trickle-down effect on other investments.**

So, when rates are low they can influence more business investment because it is cheaper to borrow. When rates are high or rising, economic activity slows. As a result, interest rate movements are also a useful tool to control inflation.

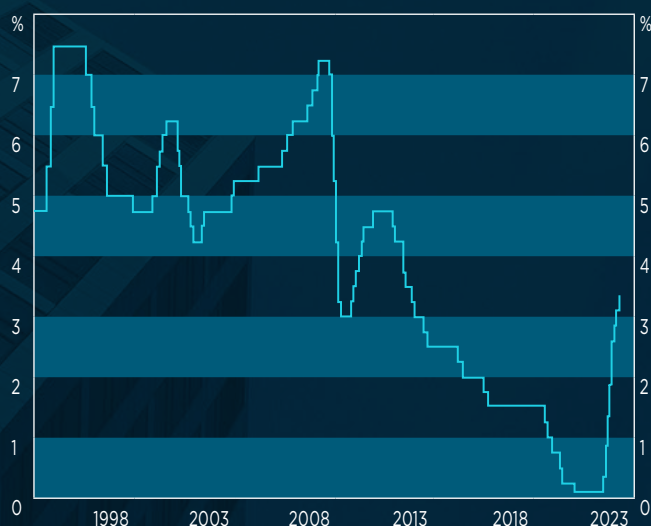
The cash rate or headline rate you hear mentioned regularly in the media is the interest rate on unsecured overnight loans between banks. The Reserve Bank of Australia (RBA) sets the rate and meets every month, except January, to consider whether it should move up, down or stay the same. This rate then usually flows through to market interest rates causing, for example, mortgage rates to rise or fall.

## Rising steadily

For the past few years, interest rates have been close to zero or even in negative territory in some countries, but that all started to change in the last year or so.

Australia lagged other world economies when it came to increasing rates but since the rises began here last year, the RBA has introduced hikes on a fairly regular basis. Indeed, the base rate has risen 3.5 per cent since June last year.

## Australian Cash Rate Target



Source: RBA

The key reason for the rises is the need to dampen inflation. The RBA has long aimed to keep inflation between the 2 and 3 per cent mark. Clearly, that benchmark has been sharply breached and now the consumer price index is well over the 7 per cent a year mark.

While interest rates are the key monetary policy weapon to control inflation and dampen the economy, there can be a risk of taking it too far and causing a recession. Economic growth is forecast to slow to around 1.5 per cent this year as high inflation, low consumer confidence and rising rates take their toll.<sup>i</sup>

### Winners and losers

There are two sides to rising interest rates. It hurts if you are a borrower, and it is generally welcomed if you are a saver.

But not all consequences of an interest rate rise are equal for investors and sometimes the extent of its impact may be more of a reflection of your approach to investment risk. If you are a conservative investor with cash making up a significant proportion of your portfolio, then rate rises may be welcome. On the other hand, if your portfolio is focussed on growth with most investments in say, shares and property, higher rates may start to erode the total value of your holdings.

Clearly this underlines the argument for diversity across your investments and an understanding of your goals in the short, medium, and long-term.

### Shares take a hit

Higher interest rates tend to have a negative impact on sharemarkets. While it may take time for the effect of higher rates to filter through to the economy, the sharemarket often reacts instantly as investors downgrade their outlook for future company growth.

In addition, shares are viewed as a higher risk investment than more conservative fixed interest options. So, if low risk fixed interest investments are delivering better returns, investors may switch to bonds.

But that does not mean stock prices fall across the board. Traditionally, value stocks such as banks, insurance companies and resources have performed better than growth stocks in this environment.<sup>ii</sup> Also investors prefer stocks earning money today rather than those with a promise of future earnings.

But there are a lot of jitters in the sharemarket particularly in the wake of the failure of a number of mid-tier US banks. As a result, the traditional better performers are also struggling.

### Fixed interest options

Fixed interest investments include government and semi-government bonds and corporate bonds. If you are invested in long-term bonds, then the outlook is not so rosy because the recent interest rates increases mean your current investments have lost value.

At the moment, fixed interest is experiencing an inverted yield curve which means long term rates are lower than short term. Such a situation reflects investor uncertainty about potential economic growth and can be a key predictor of recession and deflation. Of course, this is not the only measure to determine the possibility of a recession and many commentators in Australia believe we may avoid this scenario.<sup>iii</sup>

### What about housing?

House prices have fallen from their peak in 2022, which is not surprising given the slackening demand as a result of higher mortgage rates.

Australian Bureau of Statistics data showed an annual 35 per cent drop in new investment loans earlier this year.<sup>iv</sup> The consequent reduction in available rental properties has put upward pressure on rents which is good news if you have no loan, a small loan or a fixed interest loan on the property.

The changing times in Australia's economic fortunes can lead to concern about whether you have the right investment mix. If you are unsure about your portfolio, then give us a call to discuss.

i <https://www2.deloitte.com/au/en/pages/media-releases/articles/business-outlook.html>

ii <https://www.ig.com/au/trading-strategies/what-are-the-effects-of-interest-rates-on-the-stock-market-220705>

iii <https://www.macrobusiness.com.au/2023/02/inverted-yield-curve-predicts-australian-recession/#:~:text=Since%20the%20great%20bond%20yield,the%20shape%20of%20the%20curve.>

iv <https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release>

# Think you'll never fall for a scam?

## - Think again!

It's no secret that scammers are getting more sophisticated. As this is an ever-evolving space, scammers are constantly developing new ways to part you with your hard-earned cash – and they cast their net wide.

While it's easy to think "it will never happen to me", people who never expected to be victims of scams are actually among the most vulnerable to being taken advantage of. While the stereotype is that older people are the most likely to be scammed, Gen Xers, Millennials, and Gen Zs are actually more likely than seniors to report losing money to fraud.<sup>i</sup>

The reality is scammers don't discriminate and people of any age or demographic who believe they are too smart to be tricked may be less careful and more likely to suffer a loss.<sup>ii</sup> And the losses are considerable. Australians were expected to lose around \$4 billion to scams in 2022.<sup>iii</sup>

Here are some scams to be aware of that are doing the rounds:

### Texts or calls from a trusted brand

One of the most common scams at the moment is where a criminal pretends to be a trusted brand or government agency getting in touch to collect personal information or demand a payment. You may be contacted by email, social media, phone call, or text message and they will often direct you to an official looking website.

It's easy to be taken in via text message as it can appear to be from a legitimate sender as the scammer uses 'alpha tag' technology to register a mobile number with a word or acronym – the ATO (Australian Tax Office) for example.

Beware of clicking on links and if you get a text message or call that doesn't seem right, you can find the official contact details on the company's website and call them to verify the scam.

### Buying and selling

Scammers prey on consumers and businesses that are buying or selling products and services.

As a buyer you may pay the money and never receive the goods you have paid for. To protect yourself be on the alert for scams – if the advertised price looks too good to be true, it probably is. For rental properties or holiday accommodation, only use reputable online booking agents.

As a seller, you may be tricked into believing the buyer has paid in full or even paid over your advertised amount, including sending falsified payment receipts to support their claim. The buyer may then request a refund for overpayment. To protect yourself, don't accept a mobile payment from someone you don't know and never accept or refund a deposit for more than the selling price.

False billing scams request you or your business to pay invoices for services or supplies you did not order so always double check and query demands for payment if in doubt.

### Tugging on the heart strings

Dating and romance scammers often make their approaches on social media or dating sites and will go to great lengths to gain trust. Protect yourself by never giving money or goods of value to someone you have never met in real life.

Scammers also appeal to our emotions by impersonating genuine charities to ask for donations after natural disasters or major events. To avoid being scammed approach charity organisations directly and check an organisation's credentials on the Australian Charities and Not-for-Profits Commission (ACNC) website to see if they are a genuine charity.<sup>iv</sup>

### Attempts to gain personal information

These include when a scammer gains access to your personal information by using technology.

Consider using multifactor authentication, a security measure that requires one or more proofs of identity to grant you access to any applications you use regularly and change passwords regularly, making sure to choose secure passwords.

Taking a little extra care to be aware and alert to the possibility of being scammed could save you a lot of heartache. Of course, we are here to help if you think something may be a little suspect.

- i <https://consumer.ftc.gov/consumer-alerts/2022/11/fraud-reports-and-losses-not-just-grandparents-story>
- ii [https://www.finrafoundation.org/sites/finrafoundation/files/exposed-to-scams-what-separates-victims-from-non-victims\\_0\\_0.pdf](https://www.finrafoundation.org/sites/finrafoundation/files/exposed-to-scams-what-separates-victims-from-non-victims_0_0.pdf)
- iii <https://www.news.com.au/finance/money/costs/australia-to-cop-4-billion-scam-loss-in-2022-according-to-scamwatch/news-story/890e469b4b05a6c950e3cb6b4f83f56c>
- iv <https://www.acnc.gov.au/charity/charities>



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As a business, we want to grow alongside our clients through strong relationships and providing a tailored client service. The core value of the business is driven by our clients who are family-orientated, passionate and respectful.

On behalf of Eleven Edge Financial Planning, we thank all our clients who have made this possible for us.

Yours sincerely,

Danny Xi

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